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THE DIGITAL LIFESTYLE

# **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**TELEFÓNICA CELULAR DEL PARAGUAY S.A.E.  
Twelve-month period ended 31 December 2021**

## 1. Overview

Telefónica Celular del Paraguay S.A.E. (“Telecel”) is a leading provider of telecommunications services, including the affiliates companies, in mobile telephony, broadband internet, pay television, and other related products, such as mobile financial services (“MFS”) and digital media. We hold the number one position in the mobile market with approximately 3.89 million mobile customers, while our Hybrid Fiber-Cable (HFC) network passes approximately 907 thousand homes. In the twelve-month period ended 31 December 2021, we generated revenue of PYG 3,767 billion and EBITDA for PYG 1,405 billion.

### Covid-19

During 2021, economic activity recovered in Paraguay as the government eased the lockdown implemented at the beginning of the pandemic. Meanwhile, the fully vaccinated population is above 40%. Paraguay experienced a spike in the number of COVID-19 cases during the last quarter of 2021, but the government generally refrained from imposing strict lockdowns, choosing instead to use curfews or voluntary quarantine programs, which had a negligible effect on commercial activity.

As of December 31, 2021, and for the year ended December 31, 2021, management did not identify any significant adverse accounting effects as a result of the pandemic.

## 2. Key factors affecting Telefónica Celular del Paraguay S.A.E's business

Our performance and results of operations have been and will continue to be affected by a number of internal and external factors. The key factors that have had or, in the future, may have an effect on the results of our operations are described below:

### Acquisition of subsidiaries

#### Acquisitions for the twelve-month periods ended December 31, 2021.

There were no material acquisitions or disposals during the twelve-month periods ended December 31, 2021.

#### Acquisitions for the twelve-month periods ended December 31, 2020.

During the year ended December 31, 2020, and as a result of a shareholding restructuring, the Company made the acquisitions under common control of Servicios y Productos Multimedios SA ("SPM") and Mobile Cash Paraguay SA ("MCP").

The final purchase accounting and differences compared to the provisional fair values reported as at December 31, 2020 are shown below:

| PYG millions  | December 31, 2020 As reported | Impact of finalization/update of purchase accounting of Servicios y Productos Multimedios SA | Mobile Cash Paraguay SA | Disclosure reclassification | December 31, 2020 Restated | Reason for the change |
|---|-------------------------------|--|-------------------------|-----------------------------|----------------------------|-----------------------|
| <b>Consolidated statement of financial position</b>       |                               |  |                         |                             |                            |                       |
| <b>ASSETS</b>   |                               |  |                         |                             |                            |                       |
| Intangible assets, net                                    | 3,338,901                     | (112,487)  | 175,129                 |                             | 3,401,543                  | (i)                   |
| Property, plant and equipment, net                        | 2,254,137                     | 130,009  | -                       |                             | 2,384,145                  | (ii)                  |
| Deferred tax assets                                       | 84,656                        | -  | -                       | (84,656)                    | -                          | (vii)                 |
| <b>CURRENT ASSETS</b>                                     |                               |  |                         |                             |                            |                       |
| Amounts due from related parties ST                       | 12,594                        | -  | (6)                     | -                           | 12,588                     | (iii)                 |
| <b>EQUITY</b>   |                               |  |                         |                             |                            |                       |
| Share capital and premium                                 | 168,469                       | -  | 158,776                 |                             | 327,245                    | (iv)                  |
| Other reserves  | 49,869                        | -  | 19,651                  |                             | 69,520                     | (v)                   |
| Profit (Loss) for the year attributable to equity holders | (29,849)                      | (126,170)  | (20,821)                |                             | (176,840)                  | (vi)                  |
| <b>LIABILITIES</b>  |                               |  |                         |                             |                            |                       |
| Deferred tax liabilities                                  | -                             | 143,692  | 17,517                  | (84,656)                    | 76,533                     | (vii)                 |

(i) Impact on goodwill and customer lists resulting from the adjustments explained below for SPM and MCP.

(ii) A fair value step-up has been recognized on property, plant and equipment, mainly on customer premise equipment, towers and other civil works and other network equipment.

(iii) Reversal of amounts due from related parties previously recognized.

(iv) Impact of the 272 new shares premium issued by the Company as consideration for MCP shares contribution.

(v) Related to MCP's bargain purchase impact.

(vi) Impact of the amortization and depreciation of the intangible and property, plant and equipment step-up and the impact of SPM's final price adjustment.

(vii) Deferred tax impact of these previously explained adjustments.

| PYG millions  | Impact of finalization/update of purchase accounting of |                                     |                         | December 31, 2020 Restated | Reason for the change |
|---|---|-------------------------------------|-------------------------|----------------------------|-----------------------|
|   | December 31, 2020 As reported                           | Servicios y Productos Multimedia SA | Mobile Cash Paraguay SA |                            |                       |
| <b>Consolidated statement of comprehensive income</b> |   |                                     |                         |                            |                       |
| Depreciation  | (441,045)   | (25,184)                            | -                       | (466,229)                  | (i)                   |
| Amortization  | (238,532)   | (68,983)                            | (23,130)                | (330,645)                  | (ii)                  |
| Exchange loss, net                                    | (97,140)  | (41,417)                            | -                       | (138,557)                  | (iii)                 |
| Charge for taxes, net                                 | (16,487)  | 9,414                               | 2,309                   | (4,764)                    | (iv)                  |

(i) Property, plant and equipment step-up effect in depreciation.

(ii) Amortization charge of customer lists acquired through the acquisitions.

(iii) Impact of SPM's final price adjustment.

(iv) Impact of the effect of deferred tax as a result of the amortization of customer lists.

## Revenue

We generate revenue mainly from fees associated with communication, entertainment, data, and information services that we provide to our customers, including airtime and data usage fees, roaming fees, interconnection fees, connection fees, monthly subscription fees, broadband internet, VoIP, data transmission, cable TV, home installation fees, sale of content and other services and sales of equipment, digital services, VAS and mobile financial services. We generally seek to increase our revenue through the growth of our customer base as well as the increase of traffic/usage and the introduction of new products and value-added services. Our results of operations are therefore dependent on our customer base, the Average Revenue per User (ARPU) and the number of services that each customer adopts.

### Drivers for revenue growth

We are building state-of-the-art fixed and mobile networks to deliver services for consumers and businesses. We intend to rapidly increase the digital capabilities of our mobile network, extending our 4G/LTE network coverage – a technology that increases the speed of data services that can be delivered to our mobile customers. We are also expanding the footprint of our HFC fixed network, passing homes and business premises and connecting them to our infrastructure.

We intend to monetize the substantial investment we make in fixed and mobile networks by providing high quality, secure connectivity as well as innovative, compelling value-for-money services that consumers and business demand.

## Mobile

On the mobile front, we continue to focus on increasing our customer base through portability and new customers with segmented plans to increase traffic per user and on expanding coverage and capacity of our 4G/LTE network. As of December 31, 2021, we had approximately 2.14 million customers on 4G/LTE, an increase of 17% compared to December 31, 2020, while our mobile subscriber base increased by 7.5% to 3.8 million during the same period. On December 31, 2021, 4G/LTE customers accounted for 55% of the total mobile customer base compared to 50% on December 31, 2020.

### Mobile Financial Services

Through our mobile financial services (MFS), we provide our customers with access to a secure platform to make payments and transfer and store funds. Branded as Tigo Money, the mobile financial services we provide drive financial inclusion, help retain subscribers, and enhance ARPU through access to a wider range of services and increased customer engagement.

As of December 31, 2021, 1.6 million customers used our MFS services, representing 40% of our mobile customer base. MFS generated revenue of PYG 184.9 billion in the twelve-month period ending December 31, 2021.

## Home

As of December 31, 2021, our HFC network covered approximately 910,000 homes in Paraguay (a 7.5% increase from December 31, 2020), and we provided services to around 563,500 revenue-generating units (RGUs), an 7.1% increase from December 31, 2020. Our home customers can choose from a complete suite of services, including Pay-TV, internet, and other digital services. Our strategy is to expand our HFC network faster and more cost-effectively than our competitors, increasing our homes passed, customer relationships, and revenue. We continue to invest to provide faster and more reliable broadband connectivity around the country.

Tigo Sports is a multiplatform sports content producer and a key differentiator for our Pay-TV service. Tigo Sports is also available as an exclusive value-added service for our mobile phone subscribers, allowing access to content through an app for smartphones and other mobile devices. This represents an important component of our strategy to increase client loyalty by offering exclusive content to our customers in the Pay-TV and mobile areas and a significant enhancement to the value of the Tigo brand, as it differentiates us from our competitors and provides our customers with sought-after premium content. Through Tigo Sports, we own the rights to broadcast the Paraguayan national soccer championship until December 2023.

### Capital expenditure to expand and improve our networks and increase our footprint

We consistently seek to improve the quality and increase the coverage of our mobile and cable networks, which requires purchasing new licenses and spectrum, investing in new infrastructure, and modernizing and upgrading our networks and IT infrastructure. Spending on capital expenditure ultimately increases our revenue and operating profit, but it also increases our investing cash flows, our carrying value of property, plant and equipment and intangible assets, and increases depreciation and amortization expense. In addition, as customers increase their utilization of our networks, we incur higher operating expenses, including interconnection charges, network operation and maintenance costs, employee costs and selling, general and administrative expenses.

Balance sheet capital investment totaled PYG 881 billion for the twelve-month period ended December 31, 2021 compared to PYG 559 billion for the twelve-month period ended December 31, 2020.

### Competitive and regulatory pressures on pricing

The market in which we operate is competitive in nature. Mobile telecommunications operators compete for customers principally on the basis of price, services offered, advertising and brand image, quality and reliability of service and coverage area. We seek to sustain our market leadership position by providing innovative services on fast and reliable networks, and by leading with significant positive initiatives that reflect our commitment to sustainability.

### Effect of exchange rate fluctuations

The exchange rate for the Paraguayan Guaraní fluctuates in relation to the U.S. dollar and such fluctuations may, from time to time, have a material adverse effect on our earnings, assets, liability valuation and cash flows. Moreover, currency movements can also affect our financial leverage, as some of our debt is denominated in U.S. dollars. See “Risk Factors—Certain factors relating to Paraguay—Fluctuations of the Guaraní relative to the U.S. dollar or the implementation of restrictive currency exchange control policies by the Paraguayan government could result in an increase in our cost of financing and limit our ability to make timely payments on foreign currency-denominated debt.”

The PYG/\$ exchange rate moved from PYG 6,900.11 as of the end of December 2020 to PYG 6,885.79 as of the end of December 2021. This variation impacted our 2021 Net profit for PYG 18,748 million, as most of our debt financing is denominated in U.S. dollars. Additionally, there is a significant part of our operating costs and capital investments that are also denominated in foreign currency and therefore impacted by currency devaluation.

## 3. Results of Operations

## Twelve-month period ended December 31, 2021 and 2020

| PYG million   | Twelve-month period ended<br>December 31 |                     | Percent change |
|---|--|---------------------|----------------|
|   | 2021 <sup>(2)</sup>                      | 2020 <sup>(4)</sup> |                |
| Revenue   | 3,767,473                                | 3,153,159           | 19.5%          |
| Cost of sales   | (955,184)                                | (721,062)           | 32.5%          |
| <b>Gross profit</b>                                   | <b>2,812,289</b>                         | <b>2,432,097</b>    | <b>15.6%</b>   |
| Sales and marketing                                   | (735,702)                                | (673,272)           | 9.3%           |
| General and administrative expenses                   | (671,576)                                | (637,466)           | 5.4%           |
| Operating expenses (ii)                               | (1,407,279)                              | (1,310,738)         | 7.4%           |
| <b>EBITDA</b>   | <b>1,405,011</b>                         | <b>1,121,359</b>    | <b>25.3%</b>   |
| Depreciation  | (596,607)                                | (466,229)           | 28.0%          |
| Amortization  | (337,249)                                | (280,801)           | 20.1%          |
| Other operating income (expenses), net                | 24,822                                   | (900)               | (2857.9)%      |
| <b>Operating profit</b>                               | <b>495,976</b>                           | <b>373,429</b>      | <b>32.8%</b>   |
| Interest expense                                      | (330,518)                                | (408,953)           | (19.2)%        |
| Interest and other financial income                   | 2,258                                    | 51,849              | (95.6)%        |
| Exchange loss, net                                    | 18,748                                   | (138,557)           | <b>NM</b>      |
| <b>Profit (Loss) before taxes</b>                     | <b>186,464</b>                           | <b>(122,232)</b>    | <b>NM</b>      |
| Charge for taxes, net                                 | (37,019)                                 | (9,748)             | <b>NM</b>      |
| <b>Total comprehensive income (loss) for the year</b> | <b>149,445</b>                           | <b>(131,980)</b>    | <b>NM</b>      |
| <b>Operating Data:</b>                                |  |                     |                |
| <b>Number of mobile subscribers</b>                   | <b>3,887,180</b>                         | <b>3,617,532</b>    | <b>7.5%</b>    |
| Postpaid  | 996,717                                  | 905,056             | <b>10.13%</b>  |
| Prepaid   | 2,890,463                                | 2,712,476           | <b>6.6%</b>    |
| <b>Monthly churn %</b>                                | <b>2.7%</b>                              | <b>2.9%</b>         | <b>(0.08)</b>  |
| <b>Monthly ARPU<sup>(1)</sup></b>                     | <b>44.7</b>                              | <b>46.9</b>         | <b>(4.9%)</b>  |
| <b>Home</b>   |  |                     |                |
| Homes passed  | 907                                      | 886                 | 2.3%           |
| Customer Relationships                                | 495                                      | 452                 | 9.4%           |
| <b>Monthly ARPU<sup>(1)</sup></b>                     | <b>188.4</b>                             | <b>198.2</b>        | <b>(4.9%)</b>  |
| <b>Monthly churn %</b>                                | <b>1.8%</b>                              | <b>2.1%</b>         | <b>(14.3%)</b> |
| <b>Number of employees<sup>(3)</sup></b>              | <b>4,584</b>                             | <b>5,050</b>        | <b>(9.2%)</b>  |

(1) ARPU in local currency is expressed in thousand

(2) Includes SPM and Mobile Cash impact

(3) Includes 3,619 employees from SPM and MCP

(4) Restated for finalization of purchase accounting for Mobile Cash Paraguay and Servicios y Productos Multimedia S.A. acquisitions

## Revenue

Revenue increased by 19.5%, year-on-year to PYG 3,767 billion for the twelve months ended December 31, 2021 of which 17.2% is explained by the consolidation of the subsidiaries SPM and MCP that occurred during Q2 2020. The remaining 2.3% as a result of higher revenue in most business lines, mainly in Mobile operation, MFS and Content revenue.

In Mobile operation service revenue grew 3.1% mainly driven by prepaid segment impacted by customer growth and better performance of ARPU, partially offset by postpaid segment affected by competitive pressure on ARPU

MFS revenue increase by 9.7% due to increased transactions and customer growth as well as higher wallet adoption in line with mobile customer increase during the period.

Content revenue increased by 26.5%, as a result of higher production services and advertising. Content revenue in 2020 was impacted by the Covid pandemic and suspension of the football league in 2020.

B2B Digital segment increase by 20.7% impacted by better performance in Cloud and other solution services.

Home revenue grew by 1.1% driven by customer base growth in TV and Internet partially offset by lower installations fees and Arpu.

## Cost of sales

Cost of sales increased by 32.5% year-on-year, to PYG 955.184. billion for the twelve month period ended December 31, 2021. Main increase 28.0% is explained by the consolidation of the subsidiaries SPM and MCP that occurred during Q3 2020, the remaining variance 4.5% is explained by the increase in football rights costs, increase in programming costs due to customer base growth offset by better performance in bad debt and lower interconnection costs in 2021.

Gross profit margin decreased to 74.6% for the period ended December 31, 2021 from 77.1% for the period ended December 31, 2020.

## Sales and Marketing

Sales and marketing increased by 9.3% year on year to PYG 735.7 billion for the twelve month ended December 31, 2021 from PYG 673.3 billion for the twelve month ended December 30, 2020, of which an increase of 4.5% year on year is explained by the consolidation of the subsidiaries SPM and MCP that occurred during Q2 2020. Remaining variance of 4.8% increase comes from higher sales commissions to support our customer growth during the period and football sponsorship price increase.

## General and administrative expenses

General and administrative expenses increased by 5.4% year on year to PYG 671.6 billion for the period ended December 31, 2021 from PYG 637.5 billion for the period ended December 31, most of the variation is explained by the consolidation of the subsidiaries SPM and MCP that occurred during Q2 2020. The remaining variance reflects higher network maintenance and IT support expenses stemming from the growth of our network offset by external services and billing efficiencies.

## Operating expenses

As a result of the above, operating expenses increased by 7.4% for the period ended December 31, 2021 to PYG 1,407.3 billion from PYG 1,310.7 billion for the same period in 2020. As a percentage of revenue, operating expenses decreased to 37.4% for the period ended December 31, 2021 from 41.6% in 2020.



**EBITDA**

| PYG million                             | Twelve-month period ended December 31 |           |
|---|---------------------------------------|-----------|
|   | 2021                                  | 2020      |
| EBITDA <sup>(1)</sup>                   | 1,405,011                             | 1,121,359 |
| EBITDA margin <sup>(2)</sup>            | 37.3%                                 | 35.6%     |
| Net debt to LTM EBITDA <sup>(3)</sup>   | 3.18                                  | 3.81      |
| Total debt to LTM EBITDA <sup>(4)</sup> | 3.68                                  | 4.54      |

(1) We define EBITDA as our earnings before interests, taxes, depreciation and amortization, including Telecel, Teledportes, MCP, SPM and Lothar year to date results

(2) We define EBITDA Margin as our EBITDA divided by revenue. EBITDA Margin is not a recognized term or measure of performance under IFRS.

(3) We calculate Net debt to LTM EBITDA by dividing our total borrowings, less cash and cash equivalents, by our EBITDA from the 12 months ended 31 December 2021.

(4) We calculate Total debt to LTM EBITDA by dividing our total borrowings by our LTM EBITDA.

EBITDA increased by PYG 283.7 billion (25.3% year-on-year), and EBITDA margin increased by 1.7 percentage points year-on-year, mainly impacted by the increases in revenue offset by increases in general and administrative expenses and costs of sales explained above.

**Operating profit**

Operating profit increased by 32.8% for the twelve-month ended December 31, 2021 to PYG 495.9 billion from PYG 373.4 billion for the same period ended December 31, 2020 as a result of the above. The operating margin increased from 11.8% for the twelve-month ended December 31, 2020 to 13.16% for the period ended December 31, 2021. The year-on-year variation reflects the higher EBITDA and the additional depreciation and amortization costs that arises as a result of PPA allocation due to the consolidation of the subsidiaries SPM and MCP.

**Net finance costs**

Net finance costs, which include interest expense, net of interest income, decreased by 8.1% for the period ended December 31, 2021 to PYG 328.3 billion from PYG 357.1 billion for the period ended December 31, 2020. This decrease was mainly due to less inter-company interests income as a result of the consolidation of the subsidiaries SPM and MCP and their finance results offset by asset retirement obligation (ARO) interest accretion.

**Exchange gain (loss)**

Exchange gain/loss net, for the twelve-month ended December 31, 2021 was a net profit of PYG 18,7 billion compared to a net loss of PYG 138.5 billion for the twelve-month ended December 31, 2020. This reflects movements in the PYG/USD exchange rate resulting in the revaluation of our U.S. dollar borrowings, trade payables, receivables, supplier advances and cash and cash equivalents. The majority of our borrowings and cash and cash equivalents are denominated in U.S. dollars. The PYG has revalued over the past year, with the exchange rate decreasing from PYG 6,900.11 as of the end of December 2020 to PYG 6,885.79 as of the end of December 31, 2021.

Charge for taxes increased by 479.8% to PYG 37 billion for the period ended December 31, 2021, due primarily to the increase in profit before taxes from PYG 9.7 billion for the period ended December 31, 2020.

**Net profit (loss)**

As a result of the above factors, the net profit for the twelve months ended December 31, 2021 increased to PYG 149.4 million compared to a net loss of PYG 112.4 billion for the twelve-month ended December 31, 2020.

**Liquidity and Capital Resources**

We rely primarily on cash from operations and external bond and bank financings to fund our operations, capital expenditures and working capital requirements.

We believe that our sources of liquidity are sufficient to meet our current requirements.

## Financing

Our total outstanding indebtedness and other financing for the twelve-month ended December 31, 2019, December 31, 2020 and December 31, 2021 was PYG 3,241 billion, PYG 5,091 billion and PYG 5,174 billion, respectively.

Our interest expense for the twelve months ended December 31, 2019, December 31, 2020 and December 31, 2021 was PYG 393.3 billion, PYG 409.0 billion and PYG 330.5 billion, respectively.

## Cash Flows

The table below sets forth our cash flows for the periods indicated:

| Twelve-month period ended December 31                       | 2021                        | 2020           |
|---|-----------------------------|----------------|
|   | <i>(in millions of PYG)</i> |                |
| Net cash provided by operating activities                   | 967,085                     | 948,975        |
| Net cash used in investing activities                       | (778,697)                   | (1,759,286)    |
| Net cash provided by (used in) in financing activities      | 50,040                      | 1,406,813      |
| <b>Net (decrease) increase in cash and cash equivalents</b> | <b>234,146</b>              | <b>630,641</b> |
| Cash and cash equivalents at the end of the period          | 1,051,928                   | 817,782        |

For the period ended December 31, 2021 cash provided by operating activities was PYG 967 billion compared to PYG 948.9 billion for the period ended December 31, 2020. The decrease was mainly by a better performance compared to prior year due to results before taxes offset by a decrease in trade and other payable, taxes paid and interest received, and an increase in depreciation, amortization and inventories.

For the period ended December 31, 2021 cash used in investing activities was PYG 778.6 billion compared to PYG 1,759 billion for the twelve months ended December 31, 2020, mainly due to the acquisition of subsidiaries net of cash acquired, the absence of disbursements or reimbursement of intercompany loans offset by an increase in purchase of property, plant and equipment related to the consolidation of MCP and SPM.

For the period ended December 31, 2021 cash used in financing activities was PYG 50 billion compared to the cash increase of PYG 1,406 billion for the twelve-month period ended December 31, 2020. The change in cash provided by financing activities during the twelve months ended December 31, 2021 is the net effect between repayment of debt and financing compared to the proceed from the issuance of local and international bonus during the same period in 2020.

The net decrease in cash and cash equivalents for the period ended December 31, 2021 was PYG 234.1 billion compared to the increase of PYG 630.6 billion for the same period of 2020. We had closing cash and cash equivalents of PYG 1,051.9 billion as of December 31, 2021, compared to PYG 817.8 billion as of December 31, 2020.

#### 4. Subsequent events

##### **Regulatory**

On the 30 of March, 2022 the telecommunications regulatory entity (CONATEL) determined the payment of an additional license fee of PYG 4,198,431,421 (U\$S 609,724) for 700Mhz band license, based on latest network expansion investment. Based on bidding documents used to grant this license, the Group has concluded that this additional fee is not applicable and will be claimed.